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The Economic Development Process in the Middle East and North Africa

Alessandro Romagnoli and
Luisa Mengoni

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The Economic Development Process in the Middle East and North Africa

Offering a comprehensive analysis of the development of economies in the Middle East and North Africa over the past half century, this book charts the progress of these countries through an examination of Muslim societies, socio-demographic conditions, international relations and economic challenges.

Far from being a simple process, economic development in the Middle East and North Africa is the result of the interaction of a set of changing systems including international relations, political regimes, economic resources endowment, and social conditions. By analysing these interdependent factors, *The Economic Development Process in MENA* seeks to provide answers to the most pressing issues facing the economies in this area.

Providing an interpretation of regional economic development in light of dialectics between state and society, this book will be of value to students and scholars with an interest in the Middle East, Economics, and International Relations.

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The map on the 'Expansion of the Ottoman empire' is reprinted with permission from Encyclopedia Britannica © 1997 by Encyclopedia Britannica, Inc., which we acknowledge for the use of copyright.

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Introduction

For 50 years like no other world area, the Middle East and North Africa (MENA) region has caught the attention of the media reporting political, economic, and social events, and of the scholars of different disciplines studying the issue of political instability (due, for instance, to recurring conflicts or revolts), provision of the world's energy, and religious integralism. Sometimes these observers, although specialists, have not been fully capable of dealing with such matters, because they only had a partial understanding of the area or due to biased evaluations or ideologies. In other respects, the complexity of the socio-political reality of the region, its distance from Western standards and distinctive social habits made (and still make) difficult to cope with. Economists do not represent an exception, especially when the disciplinary framework they develop to study a specific phenomenon is based mainly on the experience of Europe and North America and on its theorization, as is the case of development.

For all these reasons to propose a book centred on the development process in the Middle East and North Africa, which aims to provide the reader with an instrument to understand the outcomes of the regional economies and the problems they are facing, is a cultural challenge. To accept this challenge we must go beyond the economic field and employ some innovative methodological tools in order to handle these topics, with respect to the few existing volumes on this argument. Our first challenge stays in the framework used to analyse the process, that is, in the adoption of a dynamic institutional view that sees socio-cultural and historical specificities as central explanatory variables. A similar approach is adopted in *A Political Economy of the Middle East* by Richards and Waterbury (Westview Press, 2008, third edition): an outstanding classic that, however, betrays its 30 years of planning. To this feature can be attributed, among others, the lack of new subjects (like institutions), and of a unifying methodology, but also by its nature a handbook is not concerned with an adopted theoretical idea of development. On the contrary, in the recent *Arab Economies in a Changing World* (Peterson Institute for International Economics, 2007) by Noland and Pack, a more updated set of problems is presented, yet using a too restrictive methodological approach (the

2 Introduction

‘international political economy’) that makes development appear as nothing but an imitation.

The second challenge of our book is that these regional economies are considered to be ‘latecomer’ countries approaching development, intended as a path introducing a new socio-economic system. In so doing a revision of the theoretical setting of another classic on the topic is proposed, *The Economic Development in the Middle East* (Routledge, 2012, first edition 1995) by Wilson, a well-structured subject-oriented study related mainly to the economic thought of 1960s and 1970s.

The third challenge faced in planning this new book on the MENA economies is to give a comprehensive and multifaceted reading of the development process in the area, consistent with that supplied in other fields of study (for example, international relations) and complementary to that offered by some books that mainly examine the economic outcome of single countries of the region, like *Economic Policy and Performance in the Arab World* (Linne Rienner Publishers, 2001) and *Arab Economies in the Twenty First Century* (Cambridge University Press, 2009), both by Paul Revlin, and the volume *Explaining Growth in the Middle East* (Elsevier, 2006), edited by Nugent and Pesaran, which are all recent collections of good essays.

The present volume is, first of all, a book on development, where this process consists of a shift from an old to a new socio-economic system (namely from a traditional society to ‘capitalism’) creating new subjects and organizations, making new goods and services available, empowering new social and political actors, in a framework of old established states of affairs outside and inside the country. Together with new economic forces and technologies, a central explanatory power of the phenomenon is thus recognized in the international environment in which this process evolves and in the domestic condition and institutional heritage on which new rules and habits are built: while the country’s potential for managing its own economic capacity depends on the first, the speed of change of social activities and rules is affected by the second. Thus the economic development of MENA countries (like that of any other country) doesn’t emerge as the result of a textbook example, but as the interaction among different social domains, like economy, political regime, international relations, social norms and skills. On this stance, the book will linger on the geostrategic position of the regional economies and on their historic evolution, on the interplay between state and society in shaping the change process, on the traditional role of Muslim institutions in arranging economic activities and in building the welfare systems, on the progress in achieving reforms and economic integration.

A methodological framework based on a systemic approach and on some analytical concepts (the geographical unit, a socio-economic interpretation of the clan, a definition of capitalism and of development, a dynamic concept of institution, etc.) is required both to implement such an interpretation of development, and to review the last 50 years’ experience of the MENA

countries searching for a proper path of development between the evolution of the international relations framework and the rapid change of an ancient, well-established society. In this framework some specific topics will be examined: the development process of 'latecomers' and the institutional change, the development of policies and macroeconomic performance, the structure of the economies, oil and gas challenges, the cycles and waves of the MENA economic transition process, demographic dynamics, the labour market, migration and the new role of the family, the openness of the economies and economic integration, the social contract and the welfare system, poverty and inequality, and the relationship between Muslim societies and capitalism.

Considering both the theoretical base for the economic analysis of development in MENA and the connected methodological premises, the dialectic between a weak state and a powerful society arises as a relevant guideline to explain regional outcome, also providing an answer to the main and most recent issues faced by these economies. The strain between the two different social domains (economic and political systems) succeeds in producing development only when it displays a sort of co-evolution of both fields, that is a shared, coordinated and consistent path toward a change.

The starting point for the analysis of the economic development process in the Middle East and North Africa is the awareness that an appropriate geographical unit is needed in order to understand the phenomenon in its distinctive nature and authenticity. This problem will be faced in Chapter 1. Although there are different concepts of region as well as divergences in defining the extension of the Middle East and North Africa, colonial legacies, international relations and geopolitical perspectives, jointly with language, culture and economic ties enable the identification of a single geographic unit. This region, homogeneous in most respects but free from regionalism (because of the colonial experience), has shifted in the last century from a geo-political periphery of the international relations to a geo-economic core, as a consequence of its strategic role for political and economic world relations. For all these reasons the Middle East and North Africa can be considered as a suitable geographical entity when discussing the problems of development of the whole area.

In Chapter 2, the economic foundations of the analysis will be set up, assuming that development represents a crossing from an old socio-economic system to capitalism, in a distinctive and historical environment. In fact, the appraisal of the outcomes and of past and future challenges of low-income economies has to take into account both the general features of the development and the environmental context in which it has been carried out. Starting from this premise the chapter will review the features of capitalism, the characteristics of the successful experience of the 'first comers', and the economic and political world context in which a new 'latecomer' implements its own path. As to the last item, a 'new development paradigm' (recently proposed by outstanding economists) will be deepened

by stressing, in particular, the need for a concept of development not restricted to economics, the importance of the institution building process along the development path, and the impact that the world social, political and economic contexts have on this process. The emerging result is that the replication of the path of development by 'latecomers' is greatly different with respect to the process experienced by the 'first comers'.

The following chapter (Chapter 3) completes the analytical framework of the book by introducing a model of institutional change and a systemic representation of capitalism based on it. If institutions can be conceived as behavioural rules embedded in social activities, the transition towards a new socio-economic system presents the need for a change in behavioural regulations of some social domains (the polity, the economy, and so on) potentially conflicting with traditions in other fields of social activities more resilient to the change (like habits and religion, for example). The problem of the emergence of capitalist institutions is thus crucial in any development process, especially in the case of the MENA region, where the coexistence of capitalism with principles of Muslim societies had been questioned. In such respect, the debate among historians on the failed update of 'Maghribi traders' commercial rules and the discussion among economists on the institutional quality in the region, are representative. The institution building process carried out within dialectics between weak states and strong societies can thus be considered as an additional guideline to the interpretation of MENA region economic development.

The demographic dynamics represent an important phenomenon affecting each development process by means of population changes (in quantity and in age structure) and movements (rural-urban migration), and by worsening economic values like the rate of food self-sufficiency and of income inequality. Yet the demographic changes that have occurred in the MENA region in the last decades have resulted also in a decrease of the 'dependency ratio' and in a considerable rise of the 'working age population', thus opening new perspectives of development. The window of opportunity is highlighted by the lower fertility rates, the increasing participation of women in the labour force, and the rising number of smaller families tending to invest more in the education of fewer children. All these matters are reviewed along the developing path of the region in Chapter 4 focusing, in particular, on the policies some Arab countries have successfully implemented to reduce their population growth, and on the increasing pressure on the labour markets, in the presence of high unemployment, due to rising participation rates. As the intraregional migration movements (from labour-abundant to the oil-rich countries with low population growth) no longer represent a mechanism for achieving demographic balance, the present situation calls into question the sustainability of the development strategies adopted by the regional economies, emphasizing the need for appropriate economic and social policies.